Chap. 7 : overseas activities and their organization

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Overseas Activities and Their Organization

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Introduction

By general trading company we ordinarily refer to a business corporation that deals in a broad range of commodities on a global scale and performs multifarious functions, and it is considered to be uniquely Japanese. Among a number of salient features of this type of company, the most conspicuous is its global business operation, and for this purpose it has a global network of branch offices, overseas affiliated firms, and subsidiaries. General trading companies engage not only in export and import trading between Japan and other countries, but also in third-country trading, as well as in the introduction of technologies, development of natural resources abroad, and even manufacturing activities overseas.

This chapter reviews the development of overseas operations by general trading companies as one of their most important and unique fields of activity from the days of the Meiji Restoration to the present, and examines the roles and functions of overseas operational arms (such as branch offices and local affiliated firms) as the nucleus of their overseas operations and their relations to the development and expansion of general trading companies as a whole.

The following specific issues will be addressed in dealing with overseas operations of general trading companies: (1) What forms do these overseas operations adopt? (2) Why, how, and when were specific forms of overseas operations adopted, for example, establishing branch offices, overseas affiliated firms, or subsidiaries? (3) How are the opening of overseas branch offices and the establishment of local affiliated firms related to such growth strategies of general trading companies as diversification of businesses and merchandise handled? (4) What are the functions and activities of overseas operational arms of these trading companies? (5) How are these overseas operational arms related to the corporate headquarters and how are they managed and controlled? And (6) What problems do these overseas operational arms face and how are they countered?

This chapter attempts to answer these and related questions. In doing so, we will base our analysis on actual data obtained mainly from the cases of the nine general trading companies of Mitsubishi Shoji, Mitsui Bussan, C. Itoh Shoji, Marubeni, Sumitomo Shoji, Nissho-Iwai, Tomen, Kanematsu Gosho, and Nichimen. But we will also touch on other traders such as Suzuki Shoten during World War I and Ataka Sangyo after World War II.

Development of Overseas Operations by General Trading Companies

From Trading at Trading Houses to Direct Trading (1868–1913)

Even before the Meiji Restoration of 1868, foreign trade had begun mainly at Yokohama and Kobe as a number of Japanese ports were opened up during the Ansei era (immediately preceding the Meiji Restoration) and trade agreements were concluded with some foreign powers. But foreign trade at that time was carried out only through the trading houses located in foreign concessions, with actual trading business completely monopolized by foreign merchants who had trading houses in these concessions. Japanese merchants merely brought in and sold merchandise to be exported to these trading houses or bought imports from these foreign counterparts.[1] Kagaya of Iwai Bunsuke, predecessor of Iwai Sangyo, for one, started as a merchant buying goods from these foreign merchants.[2]

Because the country had been isolated so long, Japanese merchants had neither experience nor knowledge of foreign trade. Nor were they rich in capital power. All this resulted in their dependency on foreign merchants in the actual execution of foreign trade. For instance, when in January 1872 the first lot of Japanese rice (which had been purchased by the government) was to be exported, the government had to entrust the rice merchant Walsh, Hall & Co. with the task of handling it. The second batch of rice was exported through the domestic product department of Mitsui Bussan in 1876, but Mitsui Bussan in turn had to ask a British merchant, E. B. Watson, to actually handle it. The same applied to the export of Miike coal by the government. Senshu Kaisha was established in March 1874, but it entrusted E. Fischer & Co. and other Yokohama trading houses to execute the trading business in its initial stages. Not only know-how of foreign trading learned in this manner but also foreign merchants' capital power were made use of.[3]

Foreign trading houses made these contributions, but many of them seem to have merely charged exorbitant commissions or abused privileges under the unequal treaties. There thus arose a movement among Japanese merchants to protest against such unjust practices of their foreign counterparts, culminating in the incident involving the Joint Freight Office for Raw Silk at Yokohama.[4]

It was in such an environment that some merchants came to aspire to deal with foreign markets directly, as Itoh Chubei and Kanematsu Fusajiro actually embarked on making direct contacts with foreign markets without much experience but emphasizing the need to protect national interests. In 1874 Okura Gumi opened its London office, the first of a number of Japanese trading companies to follow suit.[5] When in 1873 Japanese-made silk was put on sale for export for the first time, the government had let a silk-exporting company (like Doshin Kaisha) be established. But when Japanese merchants saw many Americans come over to this country to engage in the export business, the former too came to participate in this process. By 1881 as many as 10 Japanese trading companies had opened New York offices, manned by 31 Japanese employees.[6] Itoh Chubei established Itoh Kaigai Gumi in Kobe in 1885, and opened its San Francisco office in December 1889. By this time, Mitsui Gumi, Morimura Gumi, and Yokohama Kiito, among others, had started exporting silk to the United States.[7]

The move to do direct trading with foreign markets in order to eliminate the abusive practices of foreign merchants was mounted as the spinning industry developed itself as the first modern industry in Japan. Trading companies like Mitsui Bussan played an important promotive role for the emerging industry in importing efficient equipment and raw cotton from abroad as well as acting as its sales agent.[8] Osaka Men, the predecessor of Naigai Men, was established in 1877 and Nihon Menka in 1892, both in order to supply themselves with needed foreign materials and equipment to avoid dealing with foreign merchants.[9]

In the initial phases of direct dealing, Japanese merchants seem to have first designated local agents, with whom they did business. Mitsui Bussan first sent its adviser Robert Walker Irwin to London to open an agency there. When in 1894 Nichimen started trading, it imported Indian cotton through Gadam Baitel, Egyptian cotton from the Andre Corporation, and American cotton from McPhaden Brothers as the sole and exclusive agent. But it gradually changed its policy and sent its own employees to cotton-producing areas and opened its own branch offices, instead of relying on agents.[10]

Direct trading was given a spurt by the Sino-Japanese and the Russo-Japanese wars, and was given further encouragement by the expansion of Japan's foreign markets and ongoing industrialization at home. Victory in the Sino-Japanese War gave Japan hegemony over Korea, and victory in the Russo-Japanese War opened up Manchuria and China as big markets for Japanese industries. These victories also enhanced Japan's international standing, resulting in the abolition of extraterritorial rights and trading in the concessions in 1899 and in the regaining of the full right to set up its own tariff rates in 1911. Direct trading thus received a further boost.[11]

Responding to such an environment, many trading companies made bold attempts to go beyond the surrounding seas, particularly after the Sino-Japanese War. Not only Mitsui Bussan but also Kanematsu Shoten and others hitherto with offices only in certain regions opened branch offices and dispatched personnel to China and Korea to expand their sales network. C. Itoh and Iwai reached southern areas like the Philippines. Such phenomenal expansions of traders' activities overseas resulted, in the case of Takashimaya

Iida, in the possession of four divisions dealing in traditional Japanese apparel, exports, imports, and the China market, as well as 10 offices in Japan, 5 abroad, and 700 employees (of whom 88 were posted abroad).[12]

What supported these expanding activities abroad by Japan's trading companies was the rising volume of exports of cotton yarn and cotton cloth produced by the growing spinning indusry, especially after the Sino-Japanese and Russo-Japanese wars. In Asian markets in particular, Japanese merchants gradually replaced Chinese merchants overseas to manage their trade on their own. For instance, C. Itoh created an export department in July 1906 to handle exports to Korea and opened an office in Pyongyang in the following year. In those days, Japanese merchants were able to have access to Korean cotton yarn/cloth merchants only through Chinese merchants with offices in Korea or through Korean middlemen, affording particularly the Chinese merchants a considerable amount of profit. C. Itoh started direct trade based on its ties with Changsin-sa, and dispatched its own employees in December 1906 to develop new markets for Japan's cotton yarn/cloth. Mitsui Yoko (Mitsui Bussan) and Nisshin Yoko (Nihon Menka) were also keen on market development.[13] In purchasing Chinese products in China also, Japanese trading companies stopped going through Chinese agents, and Mitsui Bussan for one started to pay for soya beans before harvest while they were still standing in the field (the practice often referred to as *aota-gai*, literally "green-field purchasing"). They expanded and improved their purchasing network in this way, while contributing to production increases in various parts of China.[14]

Penetration of the Chinese market did not merely mean foreign trade for these trading companies; it offered them a chance to start production activities, particularly in China, to operate spinning factories after the Sino-Japanese War. In 1902 Mitsui Bussan's Shanghai branch absorbed a spinning factory, Xingtai, at Yangshupu, and operated and expanded it under the name of Shanghai Cotton Manufacturing, Ltd. Mitsui Bussan also started a joint venture called Santai Oil Mills, Ltd. in May 1907 in Talien to promote increased production of soya cakes.[15] Nihon Menka, for its part, adopted the policy of simultaneously promoting commerce and industry in China and operating ginning and spinning factories. Okura Gumi went into a joint venture with the government of Shenyang (Mukden) to establish Benxihu Coal and Iron Co.[16]

It was also in this period that some companies, such as Mitsui Bussan, with extensive sales and information networks started to do business among their own branch offices abroad or among third countries. Table 1 lists the branch offices of Mitsui Bussan, which had rapidly expanded its network of offices. In the fall of 1895, it started to export Chinese goods such as silk to Europe and the United States, and brought such goods as railway equipment and Oregon spruce from the United States and some goods from Europe to China. Its Shanghai branch played a particularly important role in this trade between China and the West. Nihon Menka also started vigorous third-country trading, and for this purpose established Menka Gesellschaft in Bre-

Table 1. Mitsui Bussan branch offices abroad

Year	Asia	Europe, the United States, other
1893	Bombay	
1894		
1895		
1896	Ying Kou (Niuzhuang), Taibei	New York (reopened)
1897		
1898		San Francisco
1899	Jinsen, Xiamen (Amoy), Zhifu	Hamburg
1900	Hankow, Seoul, "Guandongzhou," Manila	
1901	Java	Sydney
1902	Beijing, Guangdong	
1903	Tainan	
1904	Dalny (Dalian)	
1905	Fuzhou	
1906	Shantou, Dagou (Gaoxiong), Andong Xian, Tieling	Oklahoma
1907	Calcutta, Shenyang, Bangkok, Qingdao, Rangoon, Jilin, Kuanchengzi (Changchun), Saigon, Harbin	Portland, Vladivostok
1908	Pusan, Zhanghua (Taizhong)	Lyon
1909		
1910	Akou	

Source: Nihon Keieishi Kenkyujo, ed., *Kōhon—Mitsui Bussan Kabushiki Kaisha 100-nen shi* (Draft—A 100-year history of Mitsui Bussan) 2 vols. (Tokyo, Nihon Keieishi Kenkyujo, 1978), p. 207.

men, Germany, and sent its employees to or opened branch offices in Liverpool, London, and Milan.[17]

The Age of Expansion of Overseas Operations (1914–1945)

Overseas operations by Japan's trading companies had expanded through the years of the Sino-Japanese and Russo-Japanese wars, and received a profound impact when World War I broke out in 1914. Not only did exports from Europe stop, calling for a rapid development of Japan's own industries, but also there were rising demands for Japanese products overseas. This produced a good number of new entrants to the trading business, and expanded both the range of merchandise firms handled and the geographical areas they served. All this amounted to the creation of a firm foundation for Japanese traders to develop as genuine general trading companies.

Particular note should be taken of the move by *zaibatsu* conglomerates to establish trading companies. Mitsubishi established Mitsubishi Shoji in 1918, Furukawa established Furukawa Shoji in 1917, Asano established Asano Bussan with R. W. Grace in 1917, and Kuhara established Kuhara Shoji in 1919. As is clearly indicated by the case of Mitsubishi Shoji, which previously had been in charge of purchases and marketing, these trading companies played the roles of purchasing and marketing divisions of their parent or affiliated companies, which were engaged in a variety of business activities. Then there were others, such as Suzuki Shoten, which formed their own group of enterprises by nurturing them through such means as the introduction of foreign technologies.[18]

Because of the disruption of trade with Europe and Japan's growing foreign trade (both exports and imports), Japanese trading companies expanded their areas of operation beyond China, Manchuria, and South and South-East Asia to the Americas and Africa. The importance of the United States as a trade partner grew in particular, and some hitherto specialty trading firms (such as C. Itoh and Iwai) came to take part in the growing American trade by diversifying the range of merchandise they handled. Iwai established its US branch office in 1915, and C. Itoh and Ataka opened their branch offices in 1918 and established their overseas affiliated firms in 1923 respectively to engage in speculative trade.[19]

C. Itoh and many others also went to South and South-East Asia, for example the Philippines, India, and Java, to open branch offices. Nihon Menka and Kanematsu, among others, started to import wool from Latin America and South Africa when World War I caused disruptions of Australian wool imports. They also sent their employees from India to Uganda to buy Ugandan cotton, and also opened ginning factories in Uganda. Such efforts at developing new markets were even intensified during the 1930s, when the world economy was divided into tight economic blocks. Japan's general trading companies went into new business lines, dealt in a greater range of merchandise, developed new methods of transactions, and opened up new markets in Latin America, the Middle and Near East, Africa, the Soviet Union, Middle and Eastern Europe, and South-East Asia, except for the dollar and sterling areas. Establishing these global sales networks also served them well in enlarging third-country trade.[20]

When in 1931 the Manchurian Incident broke out and subsequently Manchuria was created, there ensued the Manchurian boom, prompting many trading companies to go into Manchuria and northern China. Mitsubishi Shoji and Mitsui Bussan, among others, invested heavily as leading members of their respective *zaibatsu* groups not only in Japan, but also in Manchuria, China, Korea, Taiwan, and other Asian countries. For instance, Mitsubishi Shoji had made 100 separate investments in the above areas by 1945, either together with other Mitsubishi-group firms or alone by absorbing existing companies, establishing joint ventures, or buying stocks. It also concluded an exclusive contract to handle West-Hongay coal, consolidated its organization to purchase soya beans in Manchuria and northern China, and participated in the management of Manshu Sekiyu (Manchuria Oil) and Manshu Kiki (Manchuria Machinery). However, Mitsubishi Shoji is said to have invested mainly in distribution and not so much in production. Nor does it seem to have been interested in acquiring dividends or interest payments in making these investments.[21]

Mitsui Bussan also adopted a policy of vigorous investment activities around 1926, and started to invest not only in Japan but also in colonies and underdeveloped areas to acquire concessions or to develop natural resources. By the beginning of the Showa period, it had invested in joint development of anthracite coal in Korea, started managing the manganese mines in Portugese Goa, established overseas affiliated firms in the Philippines (Tagun Trading Co.) to fell lumber, and Borneo Oil Fields. It had also invested in the International Syndicate, an investment firm to generate electricity in Shanghai, among other activities.[22]

As in the case of Mitsubishi Shoji, the formation of economic blocks in the world and the military situation following the Manchurian Incident prompted Mitsui Bussan also to invest in companies of joint operation such as Manshu Sekiyu, Manshu Daizu Kogyo (Manchuria Soya Bean Industry), and Nichiman Seifun (Japan-Manchuria Flour Milling). At the same time, Mitsui Bussan also invested alone in such ventures as Hoten Seima (Hoten Hemp) and Nichiman Asa Boseki (Japan-Manchuria Linen Spinning), among others. Branch offices abroad, in addition to effecting capital participation, also supplied raw materials to Japan and marketed products from Japan. The need to make larger stocks of raw materials was being emphasized at this time, calling for more efforts toward natural resource development in the southern Asian region.[23]

However, when in December 1941 the Pacific War broke out, the Japanese economy was placed under strict, wartime control, and general trading companies ceased to be active in Europe, Africa, and the Near East. As the war was extended from Manchuria and China to southern Asia, their areas of operation also shifted toward strengthening ties with South-East Asia and more emphasis was laid on procuring war materials. The leading trading companies thus opened a great number of offices in China as well as in South and South-East Asia.[24]

Ataka, for instance, had as many as 39 branch offices of various sizes when the war came to an end in 1945, among which 27 had been in existence since 1941. In southern Asia, it had established two branch offices in Bombay and Haiphong before the start of the Pacific War, but as many as 24 offices (five offices in French Indochina, two offices in Malaya, three in Borneo, three in Burma, eight in Sumatra, and the four in the Philippines) were opened as the Japanese army advanced to these areas during the Pacific War and functioned as outposts for the existing eight branch offices in these areas.[25] Similar actions were taken by other trading companies, such as Mitsui Bussan, Mitsubishi Shoji, C. Itoh, Kanematsu, and Nichimen.

These activities of general trading companies during the war were based on orders from the occupying Japanese military authorities. Table 2 lists typical activities as carried out by Mitsui Bussan and Mitsubishi Shoji. One notes the

Table 2. Businesses based on military orders carried out in South-East Asia by Mitsui Bussan and Mitsubishi Shoji

Location	Category	Contents
Philippines	factory operation	butanol factory, tobacco factory, Balintawak beer brewery, Rizal cement factory, wooden shipbuilding dock, engines for wooden ships
	development	Mankayan Copper Mine
	cultivation	jute, cotton, castor beans
Java	factory operation	oil pressing, wooden shipbuilding, wooden barrels, sulphuric acid plant
	development	
	cultivation	cotton
Sumatra	factory operation	hide bag manufacturing, wooden shipbuilding, wooden boardmaking
	development	Bukit Asam Mine, coal,
	cultivation	wheat, cotton, castor beans
North Borneo	factory operation	hide, wooden shipbuilding, rice milling
	development	
	cultivation	rice, cotton
Celebes	factory operation	paint factory, brick factory
	development	
	cultivation	rubber
Malaya	factory operation	wooden shipbuilding, coal production, recycling of waste oil from aircraft lubricant, automobile lubricant grease, coking coal, warehouses
	development	tin
	cultivation	mangrove
Burma	factory operation	lumbering, lead refining, refrigeration and canning of fish, rice milling, machinery production and maintenance, shipbuilding, substitute lubricant, hot bulb engine
	development	leading mining
	cultivation	cotton

Source: Akimoto Ikuo, "Bōeki shōsha" (Foreign trade companies), in Matsui Kiyoshi, ed., *Kindai Nihon bōeki shi* (A history of foreign trade in modern Japan), (Tokyo, Yuhikaku, 1963) 3: 307.

great variety of activities, including factory managing, development of natural resources, and planting.

The same applies to other general trading companies. In this period

offices and shops in Japan were assigned to carry out the daily business of rationing and controls, trading in the yen areas, and managing production activities in the affiliated firms. Branch offices were in charge of communication relating to the sending and receipt of military goods. Offices in Korea, Taiwan, and Manchuria were to co-operate in physical distribution and in the military administration in respective areas. Offices in the southern areas were directed to co-operate directly with the army authorities in each locality.

Thus, Nichimen as a specialty trading house (its specialty was raw cotton and cotton yarn) was assigned to manage factories producing wheat flour, matches, and starch and to handle a variety of commodities. This can be seen as constituting a foundation on which the development of these companies as *general* trading companies during the post-war high growth period would be based.[26]

Post-War (Overseas) Operations (1945 to Present)

The end of the war in August 1945 meant the temporary stoppage of all the overseas operations of trading companies, and a complete loss of all overseas assets as well. The activities of trading companies were confined to the domestic market for some time, and even those were started under the supervision of the occupation forces and the Japanese government. There were no spontaneous initiatives on the part of trading companies until August 1947, when limited private foreign trade was permitted, starting with direct dealings with overseas clients and visiting buyers. C. Itoh set up its foreign trade division in February 1948 in the face of these changes, and other trading companies started to make preparations for impending freedom to trade. Free trading was allowed in December 1949 for exportation and in January 1950 for importation. Foreign exchange controls were transferred from the General Headquarters of the Occupation Forces to the Japanese government also.[27]

When in July 1949 overseas travel was allowed with the use of foreign currency allotted to trading companies on a priority basis, they sent out their employees to India, Pakistan, Thailand, Burma, Ceylon, the Near East, Africa, Europe, and the Americas and started to revive pre-war business relations with former clients, survey the markets for such commodities as textiles, machinery, metals, and sundries, to investigate the credit-worthiness of clients, and develop new marketing outlets. At the same time, they sought pre-war employees and made preparations to reopen branch offices.[28]

Once trading companies were allowed to have overseas offices, beginning in August 1949, they all placed great emphasis on export promotion, dispatching their employees overseas, opening up branch offices abroad, and reorganizing some of the overseas offices to become independent. In building business bases abroad in earnest, they established branch offices of various sizes and overseas affiliated firms in quick succession. By 1955 major general trading companies had mostly recovered to the pre-war level in terms of the number of branch offices in big cities of the world and the number of employees overseas. By this time, they had firmly established the system of direct foreign trading.

Let us take up the case of Ataka. Beginning in 1952, it opened offices and shops in New York, Buenos Aires, Bangkok, Taiwan, and other major cities. Even during the 1955 recession, it had an office in Saō Paulo and had its own employees in Manila, Calcutta, and Bombay to open more offices.[29]

Together with the completion of a global office network, Japan's trading companies had to develop markets anew. Initially this took the form of special trades, such as barter trade, exports related to war reparations, and export-import linkage. As early as May 1949, barter trade took place between Egypt and Nihon Menka; Egyptian cotton was imported and aluminium ingot and sheets, brass sheets and tubes, chinaware, tiles, and silk fabrics were exported. This gave the initial impetus to the coming activities of the export division of Nichimen. At the time, Spain was short of foreign reserves and hardly able to obtain imports. From 1955, Nichimen and Sumitomo Shoji began importing, on a 50-50 basis, Spanish rice in exchange for machinery, iron and steel, non-ferrous metals, and chemical products. To accommodate its employees in Spain, Sumitomo Shoji opened an office in Madrid.[30]

From around 1955, a series of war reparation agreements between Japan and South-East Asian countries were concluded that proved ideal to introduce Japan's industrial goods, machinery in particular, to that part of the world. They also served to strengthen existing ties between trading companies and manufacturers in Japan. Sumitomo Shoji, for instance, was heavily involved in the war reparation exports to Burma in 1949, exporting railway cars, automobiles, and construction machinery and equipment. Subsequently, it handled similar exports to India, the Philippines, and Thailand, thereby building initial footholds for further trading with these countries. When, around 1958, the prestige of Japanese industrial goods became established in South-East Asia, thanks to these exports, not only individual pieces of machinery but even whole plants started to be exported.[31]

At the time of the Suez crisis and the closure of the Suez Canal in 1957, European goods such as fertilizers and cement were unable to compete with the same products from Japan in the South-East Asian markets. This helped Japanese trading companies to penetrate the markets in India, Pakistan, the Philippines, Thailand, and Vietnam, among other countries.[32]

In their market development efforts, trading companies sometimes cooperated with manufacturers. For instance, Sumitomo Shoji and Sumitomo Kagaku (Sumitomo Chemical) joined hands in sending representatives to Thailand every year from 1958 to perform various experiments and give technical guidance in order to find new outlets for Sumitomo Kagaku's fertilizer. They eventually established a solid distribution network by appointing designated wholesalers. Sumitomo Shoji further developed a system of bulk cargo transportation for iron and steel export, and was successful in lowering transportation costs by utilizing special bulk freighters for importing iron-ores and coking coal. These reforms certainly helped to enhance its competitive power.[33]

Despite these positive developments, however, the position of trading companies *vis-à-vis* manufacturers and banks slipped in terms of investment strength, information power, and marketing capacities. This compelled trading companies to open up new areas of activities. *Sumitomo Shoji Kabushiki Kaisha Shi* (History of Sumitomo Shoji Co., Ltd.) has the following to say about the situation:

> Trading companies were trying to raise business volumes not only by selling more but also by a variety of other means, such as improving their financing services with assistance from banks, developing land, building houses, developing ocean beds and going into other newer fields of economic activity. On the foreign trade front, not only new overseas markets were developed and new technologies introduced, but also co-ordination among various firms involved for instance in plant exportation, assistance to firms going abroad, development of overseas mines, and co-operation with develop-and-import activities were all part of the new business for trading companies, and as such they were constantly improved in their performance.[34]

In order to catch up with the higher technological levels overseas, vigorous importation of advanced technologies was a feature of post-war Japan. This also corresponded with the ongoing heavy and chemical industrialization. Trading companies became heavily committed in this activity also. Marubeni, for instance, launched its machinery and metals division in October 1951 and consolidated its foundation through the conclusion of an agency agreement with first-class enterprises in the West and introduced the equipment and technology of welding and related jobs. Other trading companies also served as middlemen in importing Western technologies for Japanese enterprises.[35]

But it was the full-scale internationalization of trading companies that truly gave a boost to overseas operations by Japan's trading companies in the post-war years. As the EEC was lauched in 1958, and developed in ensuing years, there appeared a global trend for liberalization of trade, foreign exchange, and capital flows. This did not leave Japan unaffected. Since around 1960, liberalization was clearly the trend of the day. And overseas operations came to be highlighted as part of the economic assistance to developing countries, as Japan's foreign trade structure became enhanced as industrialization proceeded and as production and consumption of iron and steel as well as petroleum products increased in Japan, calling for stable importation of raw materials. Many trading companies took note of the bright future for development of natural resources and secondary processing of iron and steel and textiles, and went out to establish joint ventures with manufacturers or with local industries, naturally internationalizing themselves at a very high pace.

Table 3 describes the changes in the number of joint ventures involving trading companies. The number started to rise through the 1960s and rapidly

Table 3. Number of joint ventures involving trading companies by geographical region and year

Region	before 1959	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	after 1978	Total
	Year authorized																				
Asia	3	3	9	4	15	3	13	8	20	17	39	43	32	41	68	50	19	7	0	2	396
Middle & Near East, Africa	1	0	0	1	3	2	2	2	0	2	1	6	2	2	6	5	5	0	0	2	42
Oceania	2	1	0	1	1	1	1	0	0	2	3	6	4	6	8	5	1	0	0	0	42
Brazil	2	0	2	0	2	0	0	1	0	0	2	1	3	11	27	28	10	2	1	0	92
Middle East	2	2	1	0	1	3	3	5	2	5	2	4	1	6	8	10	1	0	0	0	56
USA and Canada	0	0	0	1	1	1	2	2	1	8	4	5	5	13	19	10	6	2	0	0	80
Europe	0	1	2	0	0	2	0	0	1	4	2	3	5	9	14	6	3	0	0	0	52
Total	10	7	14	7	23	12	21	18	24	38	53	68	52	88	150	114	45	11	1	4	760

Source: Takokuseki Kigyo Kenkyukai, *Nihon-teki takokuseki kigyō ron no tenkai* (The Development of a theory of the Japanese type of multinational corporation) (Tokyo, Horitsubunkasha, 1979), p. 238, compiled by Adachi Ken'ichi from *75-nen ban kaigai shinshutsu kigyō sōran* (Directory of enterprises advancing abroad, 1975 edition) (Tokyo, Toyo Keizai Shinposha).

picked up its pace in the 1970s, until it hit a ceiling at the time of the oil crisis in 1973, followed by a gradual downturn thereafter. Most of these joint ventures are concentrated in Asia and Brazil, with Europe having rather few. In terms of lines of business, manufacturing looms large in Asia and Brazil, that is, in developing countries, while marketing and servicing are of greatest importance in developed countries.[36] In many cases ~~of~~ manufacturing joint ventures in developing countries, such as those involving Marubeni Tensile Steel Ltd. (a wire rod processing firm in India, where C. Itoh was a partner), Kia Industrial Co. (producing tube mats in Korea), and an acrylic bulky sweater producer in Taiwan, not only capital but technologies, a secure supply of raw materials, and marketing outlets are also offered.[37]

When in 1951 the first iron and steel rationalization plans were formulated, general trading companies went to South-East Asia, and later even to Australia and Canada, to provide finance, technologies, and long-term credit to develop natural resources. This trend was accelerated around 1955 as production of iron and steel, non-ferrous metals, and petroleum products increased, making it critical for trading companies to develop and secure bulk supplies of raw materials from abroad for growing Japanese industries. Ataka, for instance, sent its representatives to Singapore in order to develop iron-related materials in the Malaya region, and opened an office in Santiago to secure a stable supply of Chilean copper ores.[38]

Not only were ordinary natural resources developed by Japan's trading companies; they had ocean beds to exploit, rural areas to develop, and the nuclear industry to promote among a variety of new fields of activity. Since these industries and sectors were large in scale and complex in nature, they called for participation of a number of enterprises, which was made possible by the formation of enterprise groups, such as those of Sumitomo, Mitsubishi, and Mitsui.[39] As will be discussed in more detail later, the roles of general trading companies in the large-scale development projects were indeed of critical importance, highlighting the existence of these companies anew.

Forms of Overseas Expansion and the Roles of Overseas Operational Arms

Forms of Overseas Expansion

Having reviewed the history of overseas expansion by Japan's general trading companies, we will now try to identify some salient features of this overseas expansion in its various aspects.

Table 4 gives the balance of overseas investments and loans on the part of the nine largest general trading companies. It shows that all nine carry out overseas operations and play leading roles in overseas activities undertaken by Japanese enterprises. This positive investment abroad by general trading companies is due to the following factors: (1) investment in overseas affiliated

Table 4. Balance of investments and loans by general trading companies in order of size (in ¥ 100 million)

Rank	Trading company	Balance of investments and loans	Number of foreign companies with investments
1	Mitsui Bussan	2,298	267
2	Mitsubishi Shoji	2,190	228
4	Itochu Shoji	1,291	213
6	Marubeni	1,097	252
7	Sumitomo Shoji	971	148
15	Tomen	591	80
17	Nissho-Iwai	551	104
22	Kanematsu Gosho	401	90
27	Nichimen	366	60

Source: Tōyō Keizai rinji zōkangō 1982-ban kaigai shinshutsu kigyō sōran (Toyo Keizai, special issue, 1982 edition, directory of Japanese firms with foreign operations) (Tokyo, Toyo Keizai Shinposha, 1982), p. 14.

firms for the purpose of strengthening them in their roles as overseas marketing bases (this is a mere extension of their intrinsic activities as trading companies); (2) investment to secure the commercial rights for specific products, made jointly with manufacturers and other firms which also wish to expand their sales; (3) investment for the purpose of securing the supply sources of energy, foodstuffs, and mineral resources among other products; and (4) investment for the purpose of economic co-operation or in order to deal with trade and other economic frictions.[40]

The standard method of initiating foreign trade on the part of general trading companies is not direct investment in the target country but the conclusion of an agency agreement with local traders, through whom the merchandise is to be imported or exported. A typical example of this would be the case of Nihon Menka, which designated Gadam Trading Company as its agent to import Indian cotton before the war. After the war also, there were many cases of such an arrangement in initiating transactions of specific commodities.[41]

As the trade volume of staple commodities increased, however, trading companies started to dispatch and station their own employees in the locality concerned to maintain constant communication with the agent, and further to open their own branch offices. Both before and after the war, these branch offices played principal roles in the oversall overseas operations of Japan's trading companies. Table 5 summarizes overseas branch networks of the six largest general trading companies of Japan, indicating a surprisingly large number of these branch offices.

As these branch networks were established, trading started not merely between the headquarters and these branches but also between the branches

Table 5. Overseas networks of the six largest general trading companies

		Mitsui Bussan	Mitsubishi Shoji	Marubeni	Itochu Shoji	Sumitomo Shoji	Nissho-Iwai
	Mar. '70	10 (18)	25 (39)	13 (20)	12 (18)	8 (8)	10 (14)
		397 (1,240)	425 (811)	269 (747)	272 (460)	170 (345)	252 (443)
Affiliated firms abroad	Mar. '75	22 (33)	25 (34)	20 (35)	14 (23)	12 (18)	15 (20)
		546 (1,567)	696 (1,354)	452 (1,131)	375 (849)	295 (630)	33 (643)
	Mar. '80	29 (33)	26 (38)	22 (30)	16 (26)	17 (24)	17 (24)
		531 (1,789)	582 (1,429)	526 (1,182)	402 (878)	375 (740)	334 (747)
	Mar. '70	48	70	53	44	53	57
		236 (641)	327 (836)	214 (794)	231 (634)	178 (413)	170 (459)
Branch offices/ representatives	Mar. '75	63	63	62	55	64	52
		292 (1,014)	359 (936)	353 (1,142)	300 (886)	257 (699)	243 (659)
	Mar. '80	81	75	76	63	76	72
		375 (1,310)	409 (857)	439 (1,208)	381 (1,016)	326 (803)	277 (758)

Source: Shosha Kino Kenkyukai, ed., *Shin sōgōshōsha ron* (A new theory of general trading companies) (Tokyo, Toyo Keizai Shinposha, 1981), p. 249.
Note: Figures in the upper line for each period indicate number of offices, those in parentheses, number of branch offices, those in the lower line, number of employees, and those in paretheses in lower line, number of locally employed.

themselves, transforming international trade into transactions within each general trading company. C. Itoh for one is said to have made a deliberate decision to switch such third-country trade to intra-company transactions after the establishment of overseas branch offices.[42]

There were cases where, for a variety of reasons, these branch offices were upgraded to become overseas affiliated firms. A number of general trading companies used to have affiliated companies abroad before the war. In order, for instance, to enjoy the same privileges as local traders in dealing in raw cotton or wool, some Japanese traders established local firms before the war. Mitsui Bussan established Southern Product Co. in Houston in 1911, Nihon Menka established Japan Cotton Co. in Fort Worth in 1910, Gosho established Crowford Gosho Co. in San Antonio in 1913, and established another Gosho company in New York in 1918 to deal in raw silk. In wool trading, Kanematsu established F. Kanematsu (Australia) Ltd. in 1922.[43]

There seems to have been some cases where local economic uncertainties or legal issues prompted the establishment of affiliated firms in these localities. Mitsui Bussan, for instance, reorganized its Lyon office to Société Anonyme Française Bussan in August 1923 and its Hamburg Office to Deutsche Bussan Aktiengesellschaft in February 1926.[44]

Ataka also reorganized its London office to Ataka & Co. (London) Ltd. in July 1938 in order to avoid possible damage to its London offices arising out of a dispute between its headquarters and an agent in Africa, and went on to establish an incorporated firm in New York.[45]

There was great activity to establish overseas affiliated firms in the United States and elsewhere after the war once the ban on the creation of overseas operating arms was lifted. As can be read from table 5, there are now more overseas affiliated firms than branch offices of general trading companies. Emphasis on the creation of affiliated firms abroad seems to be based on their pre-war experience.

Let us examine the forms of investment abroad by Japan's general trading companies. Investment abroad is made in order to develop natural resources and to participate in manufacturing operation, marketing, and provision of services and financing. Table 4 indicates a large number of investment companies abroad owned by these trading companies. As pointed out, this form of investment often takes place in manufacturing and natural resources development in developing countries such as Asian nations and Brazil, while services loom large in the United States and Europe. One salient feature of investment abroad by Japanese firms is that which is referred to as the "four-legged race by three players," where a general trading company, a manufacturer, and an affiliated firm abroad make joint investments in a single project.[46] Such an arrangement for local manufacturing was observable before the war, but after the war, "emphasis was on the strategic principle of exercising direct controls on businesses by possessing over half of the shares. Therefore, there were a surprisingly small number of joint ventures with Japanese trading firms investing jointly."[47]

Overseas Operational Arms—Their Activities and Roles

Commodity Transactions

We have seen that general trading companies have branch offices, representatives, and overseas affiliated firms in major cities and major distribution centres throughout the world. We will now examine their roles and activities within the context of the total overseas operations by Japan's general trading companies.

It is generally maintained that general trading companies play the role of the nucleus in commodity transactions, information collection, and financing, while also playing the subsidiary roles in organizing industries, developing natural resources, and systematizing software. It follows, therefore, that the overseas operating arms of these trading companies are thought to be performing part of these various functions.[48]

As can be legitimately expected, commodity transactions and other closely connected businesses comprise the first order of business for overseas branches, representatives, or affiliated firms of trading companies. This includes actual administration of exporting and importing with the headquarters in Japan, transactions between overseas branches (constituting third-country trade), and trading within the country of their location.[49]

In performing these tasks overseas operating arms are often set up in order to handle specific lines of commodities. For instance, the Seattle office of Mitsubishi Shoji was opened in order to export iron and steel from the United States after the US-Japan agreement for the exchange of American steel for Japanese ships was concluded, and its San Francisco office was opened to export oil products to Japan following the agreement between Mitsubishi Shoji and Associated Oil in San Francisco.[50] The opening of the New York branch office of Mitsui Bussan was for the sake of handling the rapidly rising silk exports to the American market, and the establishment of Southern Product Co. in Houston as an affiliated firm was to effect direct purchases of cotton in the South. Nihon Menka opened its branches in Shanghai (in 1902) and Talien to sell raw cotton in the Chinese market. C. Itoh set up its New York office in May 1918 when it wanted to import machinery to Japan.[51]

In commodity transactions, these operating arms abroad do not merely buy and sell through their agents but are also engaged in the development of markets or supply sources on their own. Mitsubishi Shoji's branch offices in the United States, for instance, not only arranged distribution systems through dealers and chain stores in their effort to sell canned crab meat in America but were also involved in developing new markets by advertising brands and popularizing recipes with the use of crab meat.[52]

They also tried to expand the range of commodities handled not merely on the basis of the request from the headquarters in Japan but quite probably also out of their own volition by identifying prospective merchandise to cater to the local markets. The New York branch of Mitsui Bussan, originally opened in 1896 to export raw silk to the US market, purchased railway equipment and raw cotton to be exported to Japan on the basis of their forecasts.[53]

Along with the marketing of commodities, they tried to find supply sources in the same way. As early as in 1904, Mitsui Bussan went into direct purchases of Indian cotton to avoid defective cotton and to achieve a standard quality, and this was based on the decision made by its Bombay office. American goods initially were purchased by the New York branch but through American brokers, but around 1904 it came to send its own employees from New York to Oklahoma to buy the goods directly and established Southern Product Co. in 1911 to buy raw cotton directly and also to let it serve as the centre for third-country trading. In China the local distribution network was completed to purchase soya beans.[54]

Moving on to the post-war era, we see that Marubeni established an affiliated company in Mexico in 1954 to deal in Mexican cotton. It also made advance loans to cotton growers to buy directly from them, identifying and developing stable sources of supply both in terms of trade volume and quality of the goods.[55]

Businesses Related to Commodity Transactions

General trading companies carry out a number of other activities in order to smoothly execute various forms of commodity transactions. As has been seen already, overseas operations by Japan's trading companies started with export and import business through local agents and the establishment of affiliated companies in local areas, but then shifted in emphasis to joint ventures with manufacturers and develop-and-import forms of natural resources development. The functions of general trading companies abroad in relation to these activities are characterized by a great diversity of operations. Collection of information, market surveys, special measures to be adopted *vis-à-vis* the host country in investment activities, export and local procurement of related equipment and machinery, management of construction and budget controls, receipt of goods in Japan, export directed at third-country markets, and clearance of various regulations in materializing projects are all part of such multifarious operations.[56]

Japan once was a backward and underdeveloped country. General trading companies served this country with the collection of information and the introduction of technologies from the advanced West, and in doing so overseas branches indeed played important roles. Mitsubishi Shoji, for example, established a machinery division in the 1920s and concluded exclusive marketing agreements with such prestigious firms in the West as Goodyear Tire, Associated Oil, and the Saco-Lowell Shops throughout that decade, and furthermore introduced both capital and technologies from the West to establish joint ventures, such as Mitsubishi Rohrbach Aircraft Co. with Mitsubishi Nainenki (internal combustion engine manufacturer) and Mitsubishi Sekiyu together with Mitsubishi Kogyo (mining)/Mitsubishi Goshi (limited partnership) Associated, Co.

Closer ties with the firms in Europe and the United States were sought to introduce advanced technologies and production knowhow to Japan, particularly to the firms in the Mitsubishi orbit. Mitsubishi Jukogyo (Mitsubishi Heavy Industries), Mitsubishi Zosen (Mitsubishi Shipbuilding), and Mitsubishi Denki (Mitsubishi Electric), among others, were quite enthusiastic about introducing patents and production techniques from the firms in the West. As can be seen from the roles the Seattle and New York branches played in forming ties with the American oil companies, branches in the West often surveyed technologies, concluded agreements, ordered the products, and made payments all on behalf of Japan's manufacturers.[57]

When the Japanese economy became increasingly geared to war efforts through the Manchurian Incident and the war with China, heavy-chemical industries made big strides in order to meet the military demands; however, Japanese engineers were in short supply in Japan. Mitsubishi Shoji and other leading trading companies thus had their branches in the United States establish close ties with second-generation Japanese who had graduated from engineering departments of American universities, playing the role of agencies to introduce manpower with superior technology to Japanese firms at home.[58]

When the war came to an end, the technological gap, particularly in machinery production, was painfully apparent. This prompted many Japanese firms to vigorously seek foreign technologies. General trading companies re-established their pre-war relations with their agents and started to play the role of the middleman in the conclusion of technical agreements between Japanese firms and their counterparts in the West. One of many such examples is the case of Ataka serving as the go-between in the conclusion in June 1961 of the technical agreement between Bausch & Lomb Optical Co. and Shimazu Seisakusho.[59]

When around 1955 private investment in plants and equipment started to increase rapidly, trading companies began emphasizing sales of equipment and introduction of technologies. Around 1967, when most categories of machinery saw net export from Japan, however, importation of machines as such became less important than importation of patents and knowhow or drawings for the purpose of introducing technologies.[60]

When Japanese client manufacturers decided to introduce new technologies to produce new products, general trading companies had often imported the same or similar products from abroad to sell in the domestic market in order to develop the market for these prospective products beforehand, and when domestic production attained a full swing, they replaced imports by products purchased from the client manufacturers. This practice is referred to as *tsunagi* import, or stop-gap import. For instance, before the war, Sumitomo Shoji had adopted this policy as part of a gradual import substitution strategy to gain a superior position in synthetic fibres and resin.[61]

Having introduced an increasing amount of technologies and equipment from abroad, and developed markets for Japanese products and supply sources for materials needed in Japan, general trading companies now went ahead with establishing affiliated companies abroad either alone or together with other enterprises belonging to the same group.

In the pre-war period, they had been actively engaged in running spinning factories particularly in China. In 1902 the president of the Shanghai branch of Mitsui Bussan decided to buy up the Xingtai Cotton Mill, a spinning establishment in Yangshupu, and made it a going concern under the name of Shanghai Cotton Manufacturing, Ltd. This Shanghai branch was also involved in the management of similar factories, such as Santai Spinning and Dachun Spinning, and served as their sole agent. Its services, however, were limited to the procurement of raw cotton as input, the marketing of cotton yarn, and the handling of receipts and disbursements, thus freeing the headquarters of Mitsui Bussan from financial responsibilities in the operation of these factories. This was based on the management principle of Mitsui Bussan itself to avoid risks other than those in the handling of merchandise.[62] Mitsubishi Shoji adopted similar principles. It did not aim at taking part in manufacturing activities proper; nor did it aim at earning big returns on investments in manufacturing. It had a good number of investment companies in South-East Asia and China, mainly for the purpose of attaining domination over the distribution process.[63]

At any rate, the success Mitsui Bussan achieved in the operation of Shanghai Cotton Manufacturing constituted a precedent of Japan's spinning operations in China, prompting other Japanese trading companies, such as Nihon Menka and Naigaimen, to do the same. We must also note that penetration into the Chinese market after the Manchurian Incident and that into South-East Asian markets during World War II were all related to manufacturing and natural resource development. Investment abroad by Japan's general trading companies before the war had political and military colouring as an important aspect.

This practice of having joint ventures on the part of general trading companies, although already in existence before the war, became much more marked after the war, particularly around 1960. As has been noted, this was due to the global trend for liberalization and deepening involvement of Japan in development assistance, as well as to the increasingly sophisticated structure of foreign trade in Japan (see table 6).

General trading companies went abroad in a variety of forms, and this gave added importance to the functioning of the overseas operational arms of these trading firms. For instance, when the Shibato (Thailand) Co., Ltd. was established in 1962 by C. Itoh, Mitsui Bussan, and Shibaura Seito (Shibaura Sugar Co., Ltd.) at the request of the Thai government to assist development of the Thai sugar refinery industry, the Bangkok branch of C. Itoh was put in charge of domestic and foreign marketing of the products of this joint venture. There are other joint ventures abroad where local branches of Japanese general trading companies were involved in providing capital, assisting technical development, supplying raw materials, and marketing finished products, among other activities.[64] At the time of establishment of these joint ventures, local branches were also engaged in wide-ranging surveys, from

Table 6. Main overseas projects by the six largest general trading companies

Trading company	Country	Name of company	Business	Investment in ¥ 100 million
Mitsubishi Shoji	Malaysia	Sarawak L.N.G.	LNG	103
	Puerto Rico	Caribe Isoprene Corp.	Synthetic rubber materials production & marketing	33
	Brunei	Brunei LNG Ltd.	LNG	27
	Canada	Crestbrook Forest Industries	Pulp, lumbering	24
	Mexico	Expetadora de Sal S.A.	Salt production	20
	Korea (ROK)	Taesung Methanol Industrial	Methanol prod. & market.	11
	France	O.T.M.B. Société pour la Promotion de l'Organisation	Electric goods	11
	Australia	Mitsubishi Development Pty.	Coking coal, copper-ore mining	10
Mitsui Bussan	USA	Alumax Inc.	Aluminium refining	219
	UAE	Abu Dhabi Gas Liquefaction	LNG, LPG	45
	AUSTRALIA	Mitsui Iron-Ore Development	Iron-ore production	42
	USA	Petroleum H.B. Ltd.	Oil, natural gas	16
	USA	North America Forestry Development	Forestry development	16
	Australia	Mitsui-C. Itoh Iron Pty.	Iron-ore developmt.	13
	Indonesia	P.T. Indonesia Toray Synthetics	Textiles	12
	Brazil	Fertilizantes Mitsui S.A. Ind. e Com.	Fertilizers, prod. & mark.	11
	Brazil	Fosca Indústria e Comércio S.A.	Animal fertil. mtrls.	11
	Indonesia	P.T. Semen Nusantra	Cement & related prod.	11
Itohchu Shoji	Greece	Hellenic Steel C.A.E.	Steel-plate produc.	54

Table 6. (continued)

Trading company	Country	Name of company	Business	Investment in ¥ 100 million
	USA	Mazda Motors of America	Automobile marketing	25
	Australia	Texada Mines Pty. Ltd.	Salt production	24
	Hong Kong	Textile Alliance	Textiles	20
	USA	General Knit of California Inc.	Textiles	13
	Brazil	Karibe S.A.	Textiles	11
Marubeni	Australia	Dampier Salt Limited	Bay salt production	22
	Canada	Daishowa Marubeni International Ltd.	Pulp produc. & market.	21
	Brazil	Cia. Iguacu de Café Solúvel	Instant coffee prod. & marketing	17
	Philippines	Marinduque Mining & Industrial Corp.	Mining, cement prod. & marketing	17
Sumitomo Shoji	USA	Mazda Motors of America Central	Automobile marketing	16
	Australia	Lefory Salt, Pty. Ltd.	Salt production	16
Nissho-Iwai	Spain	CEFAI	Stainless prod. & mark.	11

Source: Shosha Kino Kenkyukai, *Shin sōgōshōsha ron*, p. 62.

that of the local markets to that of prospective investors, as was seen in the case of the pre-war Mitsubishi Shoji plan for a beer brewery in Hawaii together with Kirin Beer and Hawaiian investors.[65]

We have already seen that after 1955 there arose a need to secure stable supplies of large amounts of raw materials for the growing iron and steel as well as non-ferrous metals industries, and this prompted general trading companies to suddenly embark on the development of natural resources abroad. At that time, only general trading companies had accumulated knowhow in operations abroad, while manufacturing firms had no investment capacity left after meeting their own need to invest in plants and equipment at home. General trading companies thus looked positively into this venue, not only for assisting in securing finances but also in the handling of the products (see table 7).

In these big development projects or construction projects abroad, a number of firms, including trading companies, were involved, and the general trading companies often served as the systems organizers, inviting participation of other firms in the same enterprise groups. Trading companies played their inherent functions in concluding international agreements, effecting revisions and changes in such agreements, and providing finances, but in addition, they often served the role of brokerage in co-ordinating and mutually enhancing the technological capacity, management capacity, and human resources of all the firms belonging to the group.

There thus arises a characteristic feature of Japanese enterprises in attempting multinationalization as a group, playing the game of a four-legged race with the three parties of manufacturing companies, local investors abroad, and general trading companies. This becomes possible precisely because general trading companies were given important roles to play with their global information and sales network, as well as their superior judgments based on their valid perception of the global comparative advantages.[66]

Other Subsidiary Businesses

In addition to commodity transactions and businesses related to commodity transactions, overseas operating arms of general trading companies perform a number of businesses which are not directly related to commodity transactions.

We must first mention agency business in shipping. The downtown New York office of Suzuki Shoten is said to have operated ships belonging to Kawasaki Kisen and Kokusai Kisen, fares from which amounted to a considerable sum.[67] The Seattle office and the San Francisco office of Mitsubishi Shoji acted as the agent for the shipping division of its headquarters. The former received 2.5 per cent commission from the shipping division of its headquarters for cargoes on the east circuit line and 4 per cent commission on the west circuit line. Mitsubishi Shoji's office in San Francisco similarly earned a commission of 75 dollars per tanker.[68]

These two offices of Mitsubishi in Seattle and San Francisco forwarded the merchandise handled in the account of its New York office and also handled detailed paper work for it. These two West Coast offices served as agents for marine insurance, selling marine insurance for cargoes bound for Japan and China and earning a 5 per cent commission from Mitsubishi Kaijo Hoken (Mitsubishi Marine Insurance).[69]

Another important role these overseas operating arms played was to cater to the Japanese visitors in their localities. In the pre-war days, when the Japanese pattern of living differed so much from that of many foreign countries, this was particularly important, although it still serves a useful purpose today. In the 1930s, Mitsubishi Shoji's office in San Francisco, a gateway to other parts of the United States from Japan, had helped Japanese visitors with immigration processes and with adjusting to a way of life with which they were unaccustomed. The number of visitors who received assistance from Mitsubishi Shoji's San Francisco office reached 300 per year, including American government officials, Japanese university professors, members of the Diet, government officials, and employees of private corporations. This service was important in securing future business.[70]

Organizational Setup for Overseas Operations

The Organization of General Trading Companies

The basic growth strategy on the part of general trading companies is to add new items to the lines of merchandise handled and to the businesses carried out, as well as to increase the number of branches and offices both at home and abroad. Today's large-scale general trading companies, therefore, are made up of a large number of business and administrative departments spread out over both job functions and geographical regions. The crucial organizational issue facing general trading companies in their effort to grow, therefore, is how to integrate these many organizations on two different principles.

Since general trading companies have long adopted the principle of earning profits by charging commissions mainly on foreign trade transactions, they have established a large number of branches, offices, and affiliated firms abroad, and the efficient use of this kind of overseas business network calls for larger numbers of commodities to be handled.[71] As the line of products handled grows and the overseas network is improved and enlarged, therefore, there inevitably arise conflicts between the departments along the product lines handled and branches abroad. No full-fledged general trading companies are immune to this difficulty.

Such conflicts between branches and product departments arose early on in Mitsui Bussan, which became a general trading company early with a variety of product lines being handled and the branch network completed. In order to solve this difficulty, Mitsui Bussan introduced the concepts of the *bu* system and the common calculating system. The *bu*, or department (or division), concept was to establish separate departments to handle specific commodities that were important and traded in large volumes, such as rice, raw cotton, and coal. Since these commodities were handled by a number of branches, differing treatment of the same commodities, and sometimes damage, resulted because of interbranch competition. It was these problems that were meant to be solved by the institution of the *bu* system. The first such department was the one for raw cotton created in 1897.

In order to maintain this department system, the common calculating system was introduced, which was a system to co-ordinate the activities of different branches in order to avoid interbranch competition (branches operated on the self-supporting accounting system). It functioned as follows: For those commodities so designated by the headquarters, there would be no settle-

Table 7. Main overseas iron-ore and coking coal development projects

Mine name	Country	Production start year	Supply to Japan in 1,000 tons/yr	Investmt. by Japan (share %)	Japanese companies investing/financing
Iron-ore					
Hamersley	Australia	1966	24,500	6.2	Six with blast-furnace, Mitsubishi Shj., Marubeni
Hamersley (expansion)	Australia	1979	30,400	6.2	same as above
Savage River	Australia	1968	2,500	50.5	Mitsubishi Shj., Sumitomo Shj.
Mt. Newman	Australia	1969	23,400	10.0	Mitsui Bssn., C. Itoh & Co.
Mt. Newman (expansion)	Australia	1979	23,400	10.0	same as above
Robe River	Australia	1972	12,200	35.0	Nippon Steel, Sumitomo Metals, Mitsui Bssn.
Robe River (expansion)	Australia	1979	15,200	35.0	same as above
MBR	Brazil	1973	7,000	10.0	Six with blast-furnace, five trading companies
Nibrasco	Brazil	1978	6,000	49.0	Six with blast-furnace, Nissho-Iwai
Algarrobo	Chile	1978	3,500	finance only	Mitsubishi Shj.
Mandvi	India	1978	1,800	finance only	Six with blast-furnace, Mitsubishi Shj., Okura Shj.
Miferma*	Mauritania	1973	2,200	finance only	Nichimen, Tomen
Coking coal					
Maura	Australia	1965	4,000	20.0	Mitsui Bssn.
Goonyella	Australia	1971	4,000	12.0	Mitsubishi Shj.
Peak Downs	Australia	1972	3,000	12.0	same as above
Saraji	Australia	1975	2,700	12.0	same as above
Norwich	Australia	1979	2,000	12.0	same as above

Balmer	Canada	1970	4,750	27.0	Seven with blast-furnace, Mitsubishi Shj., others
Kellerman	USA	1974	1,300	10.0	C. Itoh & Co.
ICC. VP.4	USA	1974	1,800	finance only	Nissho-Iwai
Mulga	USA	1975	1,000	finance only	Sumitomo Shj.
Cerro	USA	1975	1,000	finance only	Sumitomo Metals, Mitsubishi Shj.
Blue Creek	USA	1978	2,680	finance only	Six with blast-furnace, C. Itoh & Co.

Source: Shosha Kino Kenkyukai, *Shin sōgōshōsha ron*, p. 108.
*Société Anonyme des Mines de Fer de Mauritanie.

ment account for individual branches but profit and loss calculation would be done at the headquarters covering all the transactions of those commodities. It was expected that this would enable the headquarters to hold in check the self-supporting accounting system of individual branches. Some branches of particular importance for specific commodities were designated as the "chief" department, from which other branches bought or to which they sold, and still other branches passed the commodities through, and the entire process was reported to the headquarters and recorded as an integrated process.[72]

Mitsui Bussan established five new product departments in 1911 for raw cotton, coal, lumber, sugar, and machinery, fully instituting the commodity department system. When they established chief departments for important commodities, however, the organizational problems of general trading companies were clearly revealed, that is, "the line of command for complete grasping at the headquarters of purchasing and marketing activities by individual branches for the designated commodities had been left ambiguous."[73]

In order to function as an integrated whole, they found that they had to impose firmer controls over offices and the employees dispatched to various localities. Around 1914, Mitsui Bussan thus shifted from the *bu* system to the centre-terminus system, with the raw cotton department establishing its own terminal sections within the New York branch and other branches. The basic aim of this new system was to make it possible for the headquarters commodity departments to be in a position to know and control all the variety of activities of the branches. However, this again failed to solve the basic organizational problems. It was still not clear as to who had the controlling authority in practical terms in the personnel-related decisions for the branches, the chief of the commodity department or the chief of the branch concerned.[74]

Mitsubishi Shoji also had similar organizational problems as a result of the arbitrary expansion of product lines and the branch network during World War I. Despite its growing size and organizational complexity, it had to operate in an orderly manner as a unified company by avoiding competition among departments and among branches. For this purpose, Mitsubishi Shoji consolidated a formal organization based on the commodity line, but at the same time instituted the "transactions system" in 1921, where profit and loss calculation would be done at the "chief branches" designated for specific commodities (barring exceptional circumstances). For those commodities which had no designated chief branch and ordinary branches, it took the form of transactions between the purchasing branch and the selling branch, with the profit calculation done at the latter. This ultimately resulted in the concentration of all the profit and loss accounts in the main headquarters.[75]

Thus, an organizational tradition gradually evolved in Japan's trading companies where individual branches and offices would be responsible for transactions in the regions assigned to them in their effort to further improve performance on the basis of directions from the headquarters. In larger branches or affiliated companies, their chiefs, in their own responsibility, established a number of business departments and subdivisions with specific assignments. At the headquarters, there were managing directors for various fields of responsibility, under whom were a number of departments and further subdivisions with responsibility to manage the affairs of the headquarters region. In addition, they were to give guidance to and co-ordinate the activities of other branches. In a word, the responsibility and profit accountability was divided among the branches and product departments.

Such an accounting system did have a drawback, however. For instance, when co-operation is necessary among a number of branches and departments or their subdivisions, their individual concern for their own profit performance creates barriers to bold execution of projects that have bright prospects but which require immediate expenditures. Different branches may treat the same commodity differently under different principles. Various departments and subdivisions in the headquarters, while having to guide and co-ordinate the activities of branches from the point of view of the whole company may become passive in so doing because of the concern for the performance of their own departments. This may preclude quick and flexible action, possibly depriving them of the opportunity to grow.[76]

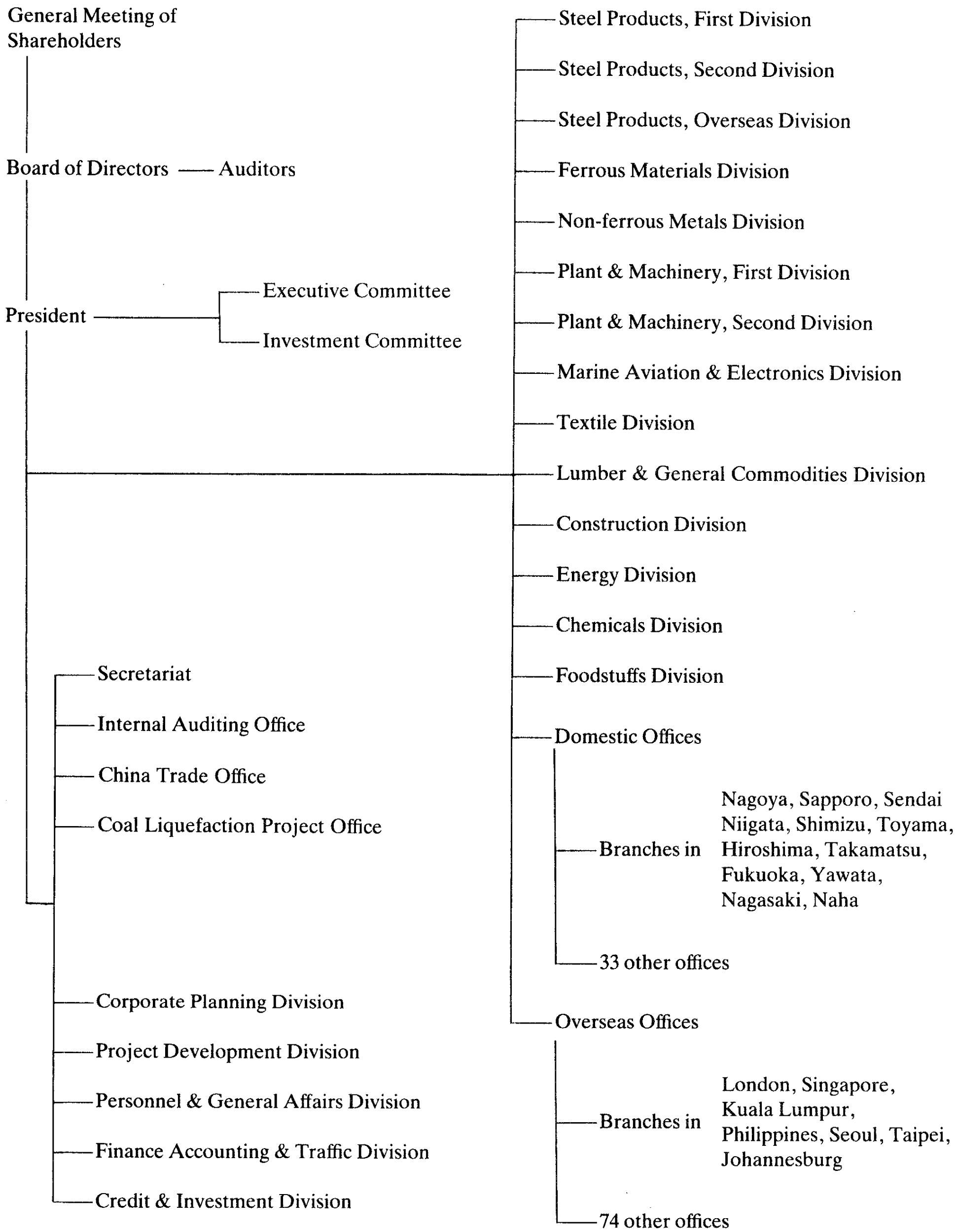
What emerged from this system and the consequent problems was the "headquarter" system (*honbusei*), where the headquarters would have departments (or divisions) in charge of specific product sectors, such as iron and steel, machinery, and chemicals, whose chiefs would be responsible for transactions and the profit account for their product sectors (see figure 1). C. Itoh shifted to this system in December 1961; Sumitomo Shoji, in December 1962; Marubeni, in June 1963; and Mitsubishi Shoji, in December 1968. (The exception was Mitsui Bussan, which had adopted the self-supporting accounting system for departments as well as for branches). "These firms attempted to reactivate their growing organization by delegating authority to lower echelons and doing away with ambiguities in profit accountability."[77] The branches had traditionally been doing business on the basis of directions from the headquarters, but in some cases they were now to receive instructions from the director in charge and the chief of the relevant business department at the headquarters, where both the chief of the headquarters department and the chief of the branch would be jointly responsible for the performance of the branch.[78]

Control and Co-ordination of Overseas Operations

General trading companies have a number of organizational problems that arise out of the very nature of their organization. They can be solved only by controlling and co-ordinating the activities of the overseas branches and affiliated firms.

General trading companies must inherently operate on low commissions, which must be offset by handling a growing number of commodities in ever growing quantities to raise the turnover of capital for higher profit rates. Front-line sales personnel tend to place priority on expanding commercial rights; a tendency that, if left unchecked, may lead to high growth only and

Figure 1. Organizational chart of Nissho-Iwai (as of August 1981)



Source: Nissho-Iwai, *Annual report 1981*, p. 32.

create unwarranted risks.[79] It thus becomes necessary to "institute upper limits of credit extended to clients, introduce the *ringi* system, establish the Administrative Department as general staff, and have a mutual checking among the three divisions of sales, accounting, and transportation."[80]

The first item of control in overseas operations is to set up a ceiling in transactions and credit extension to clients. Both Mitsui Bussan and Mitsubishi Shoji, among others, have imposed stiff upper limits in transactions and credit extension to control the activities of their branches. In the case of Mitsubishi Shoji, the limits that must be observed have not been very high. Up until the 1930s, its branches in the United States and Europe had been subjected to this limitation, within which, however, branches were allowed to make decisions without consulting the headquarters. In addition to this general kind of limit, the chief of each department could set up limits applicable to specific commodities, thus identifying the areas in which discretion should be exercised.[81]

When the overseas sales network was small, it was possible for the top management to control the operational arms abroad directly. But as the volume of merchandise handled grew more diverse and the geographical range of operations grew wider, there arose a need to establish departments with staff who would co-operate in the training of foreign trade experts in various product departments, survey and mediate foreign transactions, and collect market information. Iwai, for instance, established its overseas department in June 1941, where the jobs included administrative work relating to overseas operations (including personnel and accounting matters), control and supervision of overseas offices, liaison among both domestic and overseas offices, setting up of conditions and limits in overseas transactions, credit investigation, and the study of legal provisions relating to overseas operations.[82]

When Marubeni and C. Itoh resumed their activities after the war in December 1949, they each created foreign trade departments (foreign trade planning and foreign trade liaison, respectively). In 1952, the former was renamed foreign trade department and the latter, in 1953, foreign trade control department; these departments not only carried out administrative liaison but also controlled and co-ordinated departments and branches both at home and abroad. In April 1956, C. Itoh renamed its department foreign country department, and, in 1967, the name became overseas control department. By this time, it had been joined by other departments dealing with such economic matters as transportation and insurance, overseas projects, and reparations.[83] This period saw vigorous activities in overseas development and overseas joint ventures. As was the case with the project department of Mitsui Bussan, most general trading companies established special sections to co-ordinate the operations of business departments at the headquarters and the branches abroad and to promote joint ventures abroad in manufacturing.[84]

As overseas branches, offices, and affiliated companies grew in number, it became necessary to control the branches and affiliated firms within specific regions so that overseas operations could be carried out in an integrated and functionally efficient manner, calling for a system of control applying to specific geographical units. For instance, C. Itoh created in April 1962 a post of general manager for North America and one for Europe. As its global network expanded, C. Itoh began in 1961 to convene intra-company block conferences at different places throughout the world that were attended by those with responsibility in each region together with top management from the headquarters. The conferences were held to discuss common problems in the area to formulate comprehensive marketing strategies.[85]

Since control over overseas operations and co-ordination within specific sales regions accompanied a growing range of merchandise handled and widening geographical areas served, the early starters in their path toward generalization of their business, such as Mitsui Bussan and Mitsubishi Shoji, had already adopted these measures before World War II.

Mitsubishi Shoji had established an operations department by 1925 that controlled overseas operations. Mitsui Bussan established an auditor's post in July 1923, and placed one or more auditors in charge of the regions of Japan, China, South-East Asia, India, Australia, Europe, and the United States. This was in order to "supervise all the branch offices within specified regions, advise and encourage their chiefs, and guide them through consultations."[86] The operations department also held meetings of the chiefs of the branches in various regions, such as the United States, to co-ordinate operations among these branches.

In addition to the setting up of upper limits in transactions and credit extension and the controlling of branches and affiliated companies abroad, general trading companies had also firmly established communications systems in order to efficiently control the varied activities of a growing number of branches. Branch heads had to present reports to the corporate headquarters. In the case of Mitsubishi Shoji, for instance, these reports had included, since quite early on, a weekly report on the region, a weekly report on business operations, a tri-monthly report on the branch itself, a report on projects, various reports on personnel matters, reports on purchases and sales, and a monthly table of transactions.[87]

In addition to these formal reports, branches often received orders or instructions from the headquarters to which they had to respond. But, as has been mentioned already, there were inherent conflicts in the organization of general trading companies between the job-function departments dealing with specific commodity lines and those geographical organizations embracing various branches abroad. The attempted solution at Mitsubishi Shoji was to concentrate all matters relating to business transactions to the chiefs of branches, with communications between the branch chiefs and product-line departments at the headquarters officially non-existent. But copies of formal communications and directives were circulated among the departments and branches concerned so that all the relevant information was made available to everyone concerned. It is reputed that this system helped all the regular employees of the company to accumulate such necessary knowledge of their business that wherever they may have been transferred, they were able to plunge into work immediately at the new post.[88]

A company's communications system can be likened to the blood running through the body. In general trading companies it took the form of letters, telegrams, and telephones before the war and of telexes, computers, and communications circuits after the war, due to rapid technological developments. For instance, Nissho-Iwai at the moment uses the Iwai Computer Message Exchange System as the core of its computerized communications circuit, connecting as many as 169 branches and subsidiaries abroad for ever smoother operation, controlling and co-ordinating all the overseas operations.[89]

Conclusions

This has been a brief survey of the historical development of overseas operations by Japan's general trading companies and some of their salient features, and has demonstrated a variety of forms of operations and penetration into foreign markets before and after World War II. There was a shift in emphasis from the pre-war to the post-war days. Before the war, trading activities, through branches in the West, were of utmost importance, while some additional manufacturing activities and natural resources development projects were observable in China and in the southern Asian areas. After the war, however, branch activities were generally superseded by those of overseas affiliated firms or joint ventures in the form of a "four-legged game with three players." Emphasis was placed on manufacturing and natural resources development in developing countries, while marketing and services were more important in the industrialized West.[90]

Overseas operating arms are usually established with specific and important commodities in mind. And once these offices or local firms are created, the trading company business strategies of low commissions and high speed returns force them to add new items to the merchandise handled in order to attain higher efficiency in the use of their assets. The joint venture formula also helps to expand the range of commodities handled and to stabilize import supplies. It follows, therefore, that diversification of the merchandise handled and geographical expansion of the areas served are in close mutual relationship, constituting a basic growth strategy for general trading companies.

As the sales network grows globally, the business transactions of general trading companies change their nature from international dealings involving several markets to transactions between the corporate headquarters and the overseas branches (or affiliated firms) or between the branches themselves (or affiliated firms). In other words, the transactions are in many cases transformed into an intra-firm transfer of goods.[91] Once this transformation occurs, goods can be purchased at the least expensive locality and then be transported and sold at the most expensive place. Supply and demand can thus be co-ordinated. All this contributes to higher efficiency of operations, and theoretically there is no limit to the growth and expansion of transactions and in the operation of economies of scale.

But as the product lines grow in number, business volumes grow in quantity, serviced areas expand geographically, and the range of operations is diversified, there arise diseconomies of scale, stemming from competition among departments and among branches as well as from communications difficulties in an organization that grows in size and complexity. This forces general trading companies to attempt to integrate the regional branches and job-function departments and to control operations abroad by setting up regulations, special sections for that purpose, or perfecting the communications system. These are all attempts to attain smoother communications within the firm.

One last point which merits emphasis is that the kind of product lines conducive to handling by general trading companies consists of primary commodities such as raw materials and farm products (in which case the general trading companies can control the whole process from suppliers all the way to the end users), very expensive non-consumer goods of a highly technical nature, and staple commodities with little product differentiation. General trading companies are often said to deal in products ranging "from Chinese noodles to missiles," but what this means is that they can function fully when handling these diverse commodities.

Let us explain this point in greater detail. With respect to primary commodities, both suppliers and clients are usually large enterprises, and the very nature of the commodities usually eliminates most of the marketing problems except for the need for a stable supply. Since the price is based on the international market price, general trading companies, by transforming international transactions to intra-firm transfers, can purchase a stable amount of goods at a place where the price is the lowest and can also promote development projects along the same line. With respect to the second category of goods, very expensive goods of a highly technical nature, we note that they are productive goods first and foremost. Technical problems can be solved at the point of delivery by the supplier firms, and marketing *per se* is less important than the provision of information about the product as required by the client, the financing capacity to enable the firm to deal in goods of high value, or strong relations with the client, which are all areas where general trading companies excel.[92] Regarding the third category of commodities, there are either numerous producers or numerous purchasers, as typified by semi-finished textile products and processed foods, with little room for product differentiation. Here general trading companies can organize products and handle them in big lots, thus lowering distribution costs, developing markets, and stabilizing business. These characteristics are applicable to many of the joint ventures in manufacturing in developing countries.

General trading companies have handled these three categories of commodities as their main items of business both in domestic and foreign trade, in addition to which they have carried out a variety of businesses such as financing, information provision, market development, natural resources development, and organizing. Risks are involved in all of these business areas that, however, can be lowered to manageable levels by multifarious investment, growing as a member of a *zaibatsu* or enterprise group, and developing a unique organization and means of controls. A number of functions are thus performed concurrently and in a complex intermeshing to give rise to economies of scale in transactions and to avoid diseconomies of scale on the administrative front by devising a system of controls. Branches, offices, and affiliated companies abroad perform a special function as an indispensable part of the overall operation of such conglomerates.[93]